

M.E.D. Group Presentation: Urban vs. Rural Microfinance

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My area of research for the M.E.D. group is Urban vs. Rural Microfinance. This includes issues and questions like, “how does operating in a rural environment differ from urban microfinance?” In this presentation, I’m going to summarize the needs and expectations of both urban and rural microfinance and also how they differ from each other. For instance, rural microfinance provides challenges and risks that are not present in urban microfinance. Hopefully then we can get some questions out for us to think about and consider how to cope with these differences and risks.

First, let’s go over urban microfinance for a little bit. All in all, entrepreneurial ventures in an urban environment are much more stable and contain less risk than in a rural environment. Urban entrepreneurs have access to various resources, such as a higher amount of people willing to buy their product, more modern technology to better assist them in marketing and manufacturing their product, or a closer proximity to services and businesses that help to create and sell their product. Because of factors such as these, people taking loans for their urban businesses are more likely to successfully pay back their loans, as they work in a much more stable environment. There are, however, factors such as theft, fire, flooding, or other forms of unexpected disaster that could impede entrepreneurs from repaying their loans to microfinance organizations.

Next, I'd like to discuss rural microfinance. There has been a larger movement from microfinance organizations within the past few years to build up rural microfinance. This is due to issues like the high proportion of poor populations in rural areas, the growing income disparity between rural and urban environments, and concerns for food security and population vulnerability in those same rural areas. There are many unique challenges found in this type of microfinance. One of the more serious and present problems is that of environmental factors. Most rural entrepreneurs make their living agriculturally. So, if there are disasters such as earthquakes, fires, floods, or even things like a bad harvest or insects that will eat the crop, most farmers will not be able to pay back their loan. The Collaboratory already has a plan in place to deal with these factors.

On the wiki, I was shown the Empowerment MFI Documentation, which gives information on agricultural loans. Agricultural loans were started in 2007, with the purpose of helping rural entrepreneurs deal with environmental factors. The loan groups are given more time to pay their loans, with the loan repayment schedule being based on the agricultural calendar. For instance, payments are low for the first several months, with a larger payment due after the harvest. Naturally, the risk is much higher with agricultural loans, but they can be what many rural entrepreneurs require. There was a story included in the report about a man named Mr. Stephen. Mr. Stephen used his first loan to buy goats, chickens, and food for his family, and he successfully repaid it. He used his second loan to buy seed and fertilizer for maize and ground nuts. However, due to flooding, his maize crop was wiped out. He started a charcoal business to pay the small loans before the large post-harvest loans were due. Because of this, the report said, his loans were in default. He then started to make and sell stools and brooms to pay off

his loans. One of the main lessons Mr. Stephen said he had learned was to not put all of his loan proceeds into agriculture, as it is too risky a maneuver. This story I think really demonstrates the potential risk and benefit that agricultural loans can have.

Well, that's the majority of what I've researched on the topic so far, and I do have some questions for you all. One of the more prominent ones that crossed my mind was "what should we do in situations where rural entrepreneurs are incapable of paying back their loans?" I ask this mainly because they are not responsible for natural disasters or bad harvests. Should we show some form of grace in these types of situations, or should they pay it all back, as they knew the risks of an agricultural loan? Another question I had was "Do you all have any other ways to help rural entrepreneurs deal with environmental risk in their loans?" Meaning, do you have any suggestions for how to help lower the risk of an agricultural loan for the rural entrepreneur? Anyway, those are just some questions I had and I'd like to know what you think.